NEW FRONTIERS

o PERIODICAL STUDIES IN ECONOMICS AND POLITICS o

THE RAILROADS VERSUS PUBLIC INTEREST

BY IRVING LIPKOWITZ

VOL. IV • NO. 3 MAY, 1936

25c

NOTES AND COMMENTS

NEW FRONTIERS *is grand! How could it be anything else with Harry Laidler's article as the chief feature? But the whole thing is splendidly done, and I especially congratulate you on the handsome style and printing of the pamphlet. This is one of the best things the League has ever done."*

—JOHN HAYNES HOLMES

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The issue of NEW FRONTIERS *containing Harry Laidler's article on the Constitution is an extremely valuable summary of the subject. It ought to be in the hands of every one who is concerned with political questions, and who is not?*

—GEORGE SOULE,
Editor, *New Republic*

o o o

I thank you for the issue of NEW FRONTIERS, *which I have read through with great enlightenment and satisfaction. It is a most scientific, workmanlike and illuminating treatment."*

—BISHOP FRANCIS J. MCCONNELL

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Many thanks for sending me the copies of NEW FRONTIERS. *I find it a vital and stimulating contribution to a better knowledge of our economic problems. Dr. Laidler's brilliant article in the first number is especially valuable.*

—RABBI EDWARD L. ISRAEL

o o o

I have taken the time to read the first issue of NEW FRONTIERS *and am most favorably impressed with this new venture of the League for Industrial Democracy. Something of this nature needed to be done. It does for the field of economics and politics what the Foreign Policy Association has been so capably doing for the field of international relations.*

I trust the happy combination of authentic research and yet readability for the layman so evident in this issue of NEW FRONTIERS *may characterize the following numbers. If it does, I have no doubt of the success of your venture.*

—PROFESSOR ROYAL G. HALL,
Albion College

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THE RAILROADS VERSUS PUBLIC INTEREST

By IRVING LIPKOWITZ
WITH THE ASSISTANCE OF
SAMUEL LIPKOWITZ

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TABLE OF CONTENTS

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438

PREFACE

Following the issuance of our first pamphlet *Putting the Constitution to Work* by Harry W. Laidler, in connection with the NEW FRONTIER Series, we were besieged with requests for several volumes of pamphlets. The reason for this was not far to seek. The cover of this monthly declares that this is Vol. IV, No. 3. Some years ago the League for Industrial Democracy began the publication of *The Student Outlook*. This magazine ran for four years. This year we reorganized it from top to bottom, changed the name to NEW FRONTIERS to be issued ten months in every year, and published the first issue of NEW FRONTIERS in April, 1936.

This is the second issue. The chief contribution in this issue is the brochure on *The Railroads versus Public Interest,* by Irving Lipkowitz, with the assistance of Samuel Lipkowitz. We are deeply indebted to these authors for this excellent analysis of the nation's transportation system. In such a short pamphlet, it is possible to touch merely the highlights of the problem. The authors hoped to be able to deal at some length with the relation of rail transportation to other and newer forms, but space does not permit.

The Editorial Board and the authors wish here to express their debt of gratitude for the admirable research work of the late Richard Levy, who spent many weeks of careful research on various phases of the railroad problem and left many notes of great value to the authors.

THE EDITORIAL BOARD

THE RAILROADS VERSUS PUBLIC INTEREST

BY IRVING LIPKOWITZ
WITH THE ASSISTANCE OF
SAMUEL LIPKOWITZ

THE railroads of the United States constitute one of our greatest and most extensive industries. The service rendered and the rates charged by the nation's arteries of commerce affect, for better or for worse, every phase of our American life.

Every consumer pays heavy tribute to the railroad industry through the prices charged for food, clothing, fuel, and the numerous other products shipped on the nation's 250,000 miles of railroad lines. The railroads levy a heavier tax on the people than does the federal government. While the government had gross receipts of $3.1 billions in 1934, the railroads showed $3.3 billions of gross operating revenues.[1] Of every dollar the consumer paid for coal for household use, about 17 cents went to the railroads.[2] The shipping of the nation's agricultural products by rail cost the nation $448 millions, most of which was ultimately paid by the consumer through food purchases.[3] Rail transportation in all probability absorbs no less than 10 percent of the consumer's dollar.[4]

The question of unemployment and the revival of certain basic industries is in a considerable measure dependent on the railroads. From 1929 to 1934, the nation's annual income from wages and salaries dropped about $17.9 billions, of which decrease $1.4 billions represented the cut in railroad payrolls.[5] The soft-coal industry depends on the railroads for one-fifth of its business. The railroads have cut down their coal purchases 47 percent since 1926, which is the most important factor in the 46 percent reduction in bituminous coal production,[6] and in the addition of thousands of miners to the ranks of the unemployed. Similarly the steel industry obtains a considerable part of its business from the railroads, through steel-rail and rolling-stock orders, the sharp reduction of which has increased unemployment among steelworkers. In many other industries the state of the railroads plays an important part in determining the amount of unemployment.

The adequate solution of the railroad problem will help bring back jobs to many hundreds of thousands of the unemployed. The consumer, whether living on regular or relief wages, will find that his dollar will be able to buy many more products if the railroads' recovery is brought about with the public interest as the guiding principle. On the other hand, a plan in the interest of special privilege will mean increased unemployment and a higher cost of living for the workers and consumers.

The plans for helping the railroads are being pushed forward by financiers, investors, railroad labor, and the federal government. Financial interests and the government favor continuance of private ownership and varying degrees of regulation. The proposals of labor provide for public ownership, on the assumption that private ownership and regulation have failed. The federal government, in accordance with its traditional policy, has, from 1932 to 1936, bolstered up railroad finance with $676 millions of loans from the Reconstruction Finance Corporation and the Public Works Administration.[7] The government also intends to help the railroads cut the labor forces of the industry to a still greater extent in order to effect some coordination of facilities.

With hundreds of millions of dollars from the public treasury constantly being used to provide relief for railroad corporations and the additional threat of increased unemployment, it becomes imperative that immediate attention be given to the railroad problem. The first question to be answered is whether or not private ownership and governmental regulation is a satisfactory method of assuring the public adequate transportation facilities at the lowest possible price consistent with fair labor conditions and financial soundness. For more than a century the railroads of this country have been operated under private ownership and for about half a century the roads have been administered under federal regulations. How satisfactory has such operation been? Let us briefly review the facts.

Railroad Construction by Government Subsidy for Promoter's Profit

The first railroads were built at the insistence of merchant groups seeking monopolistic control of new market areas. In the early days, the railroad builders were motivated primarily not by a desire for ample and cheap facilities, but by the urge to maintain exclusive entry to the region tapped by the road. The promoters of the New York & Erie Railroad in 1831 found it almost impossible to obtain necessary funds until they "could point out the necessity for a railroad directly tributary to the City of New York as the one means of preserving its commercial supremacy." Interconnected systems were consciously avoided. Pennsylvania had different track gauges than either New York or New Jersey and, until after the Civil War, there were eight different gauges in use on American railroads.

The financiers refused to risk their money in this new though necessary enterprise. The railroads thus grew very slowly in the early years. The boom in railroad building began when business and government started to offer bounties and subsidies to encourage the building of additional mileage. Promoters were attracted by the prospects of speculative profits from railroad building, without any thought as to whether such roads could be profitably

operated or whether they provided efficient and adequate service at low cost. In many instances,

"Charters for rails were obtained not because the new highway was needed but because promoters hoped and perhaps persuaded themselves they could sell those lands, received at no cost to themselves, to an inrush of settlers at greatly advanced prices, or sell the rail stocks or bonds on their land grants to a public mad with a speculative mania, then retire with profits and leave buyers of land and securities to sink or swim; struggle or strangle." [8]

To obtain the largest possible subsidies, legislatures were often bribed and railroads uneconomically rerouted with a view to meeting the wishes of the highest bidder. By offering huge bounties, the government succumbed to the demand of promoters that speculative profits be put above public service. As a result, one of the most corrupting forces in government came into existence, the railroad lobby, an institution which has functioned ever since those early days. During the first few decades, governmental aid in the form of land grants was given to 79 railroads, 21 receiving grants from Congress and the others from the various states. About 155,000,000 acres of public lands were thus given to the railroads. In addition about $700,000,000 was contributed by federal, state, and local governments.[9]

On the basis of these public grants, the financiers issued huge quantities of railroad securities. The bankers for the Kansas Pacific featured in their advertising prospectuses of 1869 the fact that the land grants would be more than sufficient security for the bonds up for sale.[10] Similarly another group of financiers, from a part of the land grant of the Minnesota & Pacific, "obtained more than twice the sum they paid for the entire property." [11]

Jay Cooke, in a circular issued about Northern Pacific securities, quoted Senator Thurman of Ohio as declaring on the Senate floor:

"Why sir, I affirm, and affirm without fear of successful contradiction, that the grants made by the charter of this company to the company will defray every dollar of expense of building and equipping the road so that the result of the whole thing is simply that the government builds and equips this road and gives it to a corporation." [12]

When the public bought these securities, it was frequently paying the financier for land and other grants, which cost him nothing and which the public itself had given him through the government.

The bankers did not have much difficulty in selling these securities to the public and issued them not in accordance with the railroads' needs but to the limit of the public's enthusiasm and funds.

"The experience of the Baltimore & Ohio was typical. 'Everybody wanted stock' . . . the possession of stock in any quantity was regarded as a pro-

vision for old age. . . . The directors, availing themselves of the public feeling, gratified their subscribers by permitting them to double their stock." [13]

The policy of subsidies not only gave the promoters an opportunity for building vast capitalizations on public gifts and then watering the capitalizations at the expense of an enthusiastic and trusting public, but also increased the cost of land to the settlers who followed the railroads westward. By 1883 the Secretary of Interior was forced to report that "the area of arable land open to settlement is not great when compared with the increasing demand and is rapidly decreasing." [14] The railroads, by creating an artificial scarcity, were able to boost the price of these lands. The federal government encouraged this policy. In the case of the Union Pacific, the financial interests demanded that the land grant be doubled. The government fulfilled their wishes and defended the additional grant as being "in the nature of any ordinary business transaction." The government joined hands with the railroads in a plan to increase the settlers' land cost 100 percent, for it was further explained that, "by the doubling of the price of the sections reserved, the government would be reimbursed for the amount given away." [15]

Similarly, in the matter of taxes, state governments subsidized the railroads at the expense of the settlers by enacting laws enabling railroads legally to evade taxation on their unsold lands. "In this way they held millions of acres for speculative purposes, waiting for a rise in prices, without taxation, while the farmers in adjacent lands paid taxes." [16]

Many other types of subsidies were also granted. In Ohio, a railroad was given the charter right to go into the banking business. Its stockholders didn't contribute a dollar, the expenses of early construction being paid with the treasury notes issued by the company. The company soon suspended operations, without building any useful transportation lines but leaving in its wake hundreds of thousands of dollars of worthless currency in the hands of laborers and contractors. California levied special taxes in order to pay interest on Central Pacific Railroad bonds. A southern railroad was built entirely by convict labor supplied by North Carolina, "upon favorable terms."

The sum total of these grants and subsidies probably more than paid for the total legitimate initial construction costs of our roads, yet all the gain went to private promoters. This policy of stimulating railroad construction, by appealing to the profit incentive, resulted in a haphazard, unbalanced, and uncoordinated set of roads, with rates entirely out of line with industrial and agricultural conditions.

When the subsidies began to dwindle, financial groups started to fight each other for monopoly control of the extremely profitable railroad field. Vanderbilt, in 1865, owned the Hudson River Railroad, running from Albany to New York, and wanted to get control of the New York Central which then had its

southern terminus at Albany. In order to drive down the value of the common stock, Vanderbilt ordered his road to refuse to accept Central traffic destined for New York City. By thus crippling the state's transportation facilities, Vanderbilt was able to buy up Central stock at an artificially low price. A few years later the West Shore Railroad was built by speculators to parallel the Vanderbilt lines, with the solt intention of forcing him to buy them out. Again Vanderbilt did not hesitate to sacrifice transportation service to gain his financial ends. He ruined the West Shore's business by political wire-pulling and cutthroat competition until he drove the road into bankruptcy and then bought it in under foreclosure proceedings.[17]

Gould was more successful than Vanderbilt's rivals, but here again it was at the expense of transportation service and resulted in the construction of unnecessary spur lines and excessive capitalizations. He gained control of the Pittsburgh & Cleveland at a cost of $40 per share, and forced the Pennsylvania to pay him $120 per share for it. This trebled cost remained in the capitalization of the Pennsylvania, a burden on the users of the road. During his control of the Erie, Gould inflated the capitalization by $64,000,000 without any increase in the physical assets of the road. Similarly throughout the land the fight went on, resulting in overbuilding of parallel lines, sabotage of transportation facilities, and gross inflation of construction costs and capitalizations. It has been estimated that the useless competing lines alone have cost the nation more than $1,000,000,000 directly through waste and final abandonment, and indirectly through their absorption by the larger systems.

The railroad lines were built principally with the proceeds from subsidies and in many cases were built because subsidies were available though there was no real need for a road in that region. As a result, their capitalizations do not represent legitimate investments in needed transportation facilities. Instead, they largely reflect promoters' expectations of speculative profits.

The Demand for Regulation

Competitive building was often justified on the ground that it would lead to better service. The development of competition resulting from overbuilding, however, utterly failed to give rise to lowered rates and more satisfactory service. It produced instead rate and service discrimination between shippers. The railroads competed only for the large shipper, and, in order to capture his business, conspired with him against his smaller competitors. The costs of competition were thus chiefly concentrated on the small shippers, predominant among whom were the newly settled farmers.

As it became evident that the building of the railroads on a purely profit basis did not produce an efficient and adequate transportation system or low

rates, a strong anti-railroad sentiment was born. This resentment reached a high point during the depression of the 1870's, when agricultural prices fell sharply, while freight rates remained constant.

"When the Iowa farmer was burning corn for fuel, because at fifteen cents a bushel it was cheaper than coal, while at the same time it was selling for a dollar in the East, he felt that there was something wrong, and quite naturally accused the railroads of extortion." [18]

The Granger Movement gathered considerable strength in the agrarian regions during this crisis, mainly because of its demand for the regulation of the railroads. State regulatory commissions were created but they soon proved ineffective and the cry for federal regulation arose.

Government Yardstick Proposed by Windom Committee

In response to the growing demand for regulation, Congress appointed the Windom Committee in 1872 to study the problem. In April, 1874, the Committee reported its recommendations. The Committee rejected "direct Congressional regulation" because "it is seriously doubted if facilities, sufficiently cheap and ample to meet the just and reasonable requirements of commerce, can ever be obtained by this method . . ." Private competition was also found unsatisfactory as a solution to the railroad problem, "because it exists only to a very limited extent in certain localities; it is always unreliable and inefficient; and it invariably ends in combination." Instead of these methods, the Windom Committee suggested the establishment of a government yardstick, "through national or state ownership, or control, of one or more lines, which, being unable to enter into combinations, will serve as regulators of other lines." By the establishment of public competition it was hoped that the attention of railroad operators would be forced to turn from the problem of "how to make the largest profits out of a given amount of traffic," to the study of the "cheapest modes of transport and the largest possible increase of business." [19]

These findings of the Windom Committee confirmed the charges of the public that a private management, naturally dominated by the desire for maximum profits, could not provide transportation service economically, efficiently, and cheaply. It was realized that there was no basis for cooperation between democratic government and privately controlled railroads, if "the public interest" was to be adequately served. Consequently the Windom Committee recommended public competition instead of trying to reform the railroad managements through government regulation.

The Committee also saw that their proposal of a yardstick was based on the assumption that effective competition was economically desirable. They sig-

nificantly added that, "if it be true that consolidation is the natural and inevitable law of railway development," then

"The day is not distant, if it has not already arrived, when it will be the duty of the statesman to inquire whether there is less danger in leaving the property and industrial interests of the people thus wholly at the mercy of a few men, who recognize no responsibility but to their stockholders, and no principle of action but personal and corporate aggrandizement, than in adding somewhat to the power and patronage of a government directly responsible to the people and entirely under their control." [20]

These recommendations were totally ignored as far as actual legislation was concerned. The railroads had too strong a hold on the legislative bodies to permit the execution of the Windom suggestions, Jay Gould in an 1875 investigation explained the policy followed by the railroad financiers:

"We had four states to look after, and we had to suit our politics to circumstances. In a Democratic district I was a Democrat; in a Republican district I was a Republican; and in a doubtful district I was doubtful; but in every district and at all times I have been an Erie man." [21]

Indicative of the calloused and public-be-damned attitude of the legislators as well as the railroaders is that, with typical hardboiled cynicism, "for many years in the Pennsylvania Legislature, when a member should see fit to move an adjournment of the House, uniformly he would say, 'Mr. Speaker: Since the Pennsylvania Railway Company has no more business for this body to transact, I now move we adjourn.' " [22]

The Creation of the Interstate Commerce Commission

Federal regulation was finally forced upon the railroads in 1886 by the Cullom Act establishing the Interstate Commerce Commission. Although this legislation came into being because of the growing public demand, its limitations were so narrow that it was far more effective as a protector of the roads than the public. The act concerned itself with rate discriminations on the assumption that they represented the "paramount evil chargeable against the operation of the transportation system. . . ."

The Windom Committee's thesis of the fundamental contradiction between private profit and the public interest as the guiding principle was thus denied. The assumption on which actual regulation was established and has been operating is the basic soundness of railroad operation for private gain and the necessity of only surface adjustments. Could regulation cure the evils which characterized railroading before 1886? The fifty-year history of regulation alone can prove whether the traditional governmental policy or the Windom Committee is right.

The 1886 act did little to protect the consumer. The prohibition of rebates and other rate discriminations in that act was first and foremost a measure calculated to protect the railroads from the large shippers. Rate levels were not affected by the legislation, the government depending on private competition to keep rates down. The new law did not provide for any basic readjustment but merely assured the railroads that they would no longer have to share the profits obtained from high rates with their large shippers.

Rate Making Against the Public Interest

The basic principles for rate regulation were ostensibly established by the decision in the Smyth *vs.* Ames case in 1898, wherein it was declared that a railroad is entitled to a "fair" return on "fair" value of its property used and useful in the public service, provided that the management was reasonably efficient and that the resultant rates were not greater than the value of the service to the public. In the thirty-eight years of subsequent regulation, the principles by which fair value for rate-making purposes is to be estimated have not yet been laid down. The problem of efficient management has been barely and most inadequately considered, while the last point of the 1898 decision, the value of the service to the public, has yet to be recognized by regulatory bodies and the courts.

With the regulatory bodies unable to establish a working basis for rate determination, the railroads continued to ignore their responsibility of providing transportation service to the public at rates which encouraged the widest economic use of their facilities. If the railroads were operated in the public interest, their rates would be reasonably in adjustment with economic conditions, rising and falling with the general price level. Actually, the railroads have maintained inflexible rate schedules, disregarding national depressions and thereby aggravating the plight of not only the nation's industries but also the great mass of consumers.

This anti-social policy has not even been dropped under the extreme conditions of the current depression. Assuming 1913 levels as a standard, railroad rates by 1929 were 50 percent higher, while wholesale prices were up only 37 percent. By 1932 wholesale prices had fallen so low that they were 7 percent below 1913, while railroad rates were still 45 percent above 1913. Even in 1934, with prices making recoveries (being, at that time, 7 percent above 1913 levels), railroad rates remained out of line at 36 percent above 1913.

Wages generally fall farther during a depression than the cost of living. Rigid railroad rates are an important factor in keeping these consumer costs up, and in effect the railroads thereby cut the real wages, in terms of purchasing power, of the workers throughout the nation.

What this disparity in prices has meant is most clearly shown in the case of the farmers, though it similarly affects other labor groups. Again using 1913 as a standard, the farmer in 1929 received 45 percent more for his products but he had to pay 52 percent more for the things he purchased. By 1932 he was getting 36 percent less for his products than in 1913, but he was still paying 6 percent more than in 1913 for the things he needed. This continuous impoverishment of the farmer is not entirely the fault of the railroads, but they had the power greatly to diminish this impoverishment, instead of which they chose to intensify it.

RAILROAD RATES AND PRICES [23]
(Calculated with 1913 as the base)

Year	*Railroad Rates*	*Wholesale Prices*	*Prices Received By Farmers*	*Prices Paid By Farmers*
1913	100	100	100	100
1929	150	137	145	152
1930	147	124	125	144
1931	145	105	86	123
1932	145	93	64	106
1933	139	95	69	108
1934	136	107	89	122

The average level of rates, besides being out of line with other prices, contains many serious internal defects. In the effort to get the business of large shippers, the railroads have allowed below-cost rates to them and saddled the costs of the other shippers. In a planned national economy such a policy may be justified and even desirable where it is applied so as to bring about the most efficient and economical distribution of the nation's products. However, where such a policy is guided by the sole principle of maximum profits, the results are often an uneconomic overdevelopment of certain industries, with the consumer and worker ultimately paying for it.

Early in railroad history, Oregon lumber was not shipped eastward because of the high freight rates for the long haul as compared with lumber from Minnesota and Wisconsin. The Great Northern Railroad had most of its freight traffic going westward and empty cars going eastward. A low rate, the difference between the cost of hauling an empty and a loaded car, was placed on Oregon lumber. It was then able to take away the business from lumber fields located closer to the market. This did not mean lower prices to the consumer, for within thirteen years the price on the northwestern lumber doubled. The railroad then decided that it deserved a share of these profits and increased the rates on northwestern lumber by 20 percent.[24]

Similarly, preferential coal rates enable non-union mines in the West Virginia area to undersell coal shipped from the more northern fields. Sharp varia-

tions are made in rates for competing products with the interest of the competing producer and the railroad alone considered. In every case, the railroad may subsidize with low rates the beginning of uneconomic competition, but eventually rates are raised and the consumer carries the burden through higher prices.

While the Interstate Commerce Commission was enmeshed in continuous litigation because it attempted to lay the foundation for a rate policy, the service and labor aspects of railroading were for the most part left unregulated. Private management, by virtue of the fact that the courts supported their demands for high rates, followed the typical policy of private monopoly, of seeking the largest possible profit per unit of traffic. If profits declined they sought increased rates on existing traffic instead of encouraging greater use by expansion of facilities and improvement of service. The rapid growth of business at the turn of the century soon caught up with the existing rail facilities and, by 1907, had developed beyond the capacity of the transportation system. By 1914, according to Charles F. Adams, former president of the Union Pacific, the railroads were getting "into a well-nigh inextricable snarl" and the problem did "not admit of solution except through treatment both drastic and comprehensive."[25] Then came the war, with its accompanying federal control, an analysis of which appears in the later pages of this pamphlet.[26]

Service

After the war the railroads not only failed to make the expansion and improvement of service necessary to meet even pre-war business requirements, but tried instead to maintain profits by curtailing service. From 1921 to 1934, 13,866 miles of line were permanently abandoned while only 7,075 miles of new line were constructed. This trend has become more pronounced in recent years. In 1934 only 33 miles of new line were built, while 1,784 miles were abandoned.[27] A recent survey of the reasons for abandonment, as given by the railroads themselves, shows that motor competition was a principal cause in connection with about one-fifth of the abandoned mileage.[28] The most important reason for abandonment was the exhaustion of natural resources and the failure or destruction of local industries. This condition, in a considerable measure, is the result of the railroads' policy of fostering uneconomic competition through their preferential rate schedule.

Along with abandonment of line, maintenance expenditures have also been cut, seriously affecting the service and safety of the lines still in operation. During the depression, such expenditures have been slashed to less than half, from $2,095 millions in 1929 to $1,020 millions in 1934.[29] A small portion of the reduction is probably attributable to a lower price level, but the major part

represents a dangerous policy of undermaintenance. Donald Richberg, testifying at a Congressional hearing in 1933, claimed:

"There is not any question but what between $1,000,000,000 and $2,000,000,000 can be expended, and should be expended to make up for the undermaintenance of equipment and rights of way. I say that, not on any estimate of mine, but on estimates that have been made by different groups of experts on the subject." [30]

The railroads' physical property is not only undermaintained but also badly in need of modernization. Of the locomotives in service at the end of 1934 on Class I roads, 58 percent were at least twenty years old, while only 11 percent were less than ten years old. About one-third of these locomotives were unserviceable in 1934. The total amount of rolling stock is diminishing as retirements exceed replacements. During 1934, 2,912 locomotives were withdrawn and only 312 were installed. Retirements of freight cars exceeded replacements by 98,000, while the net reduction of passenger cars during the year was 2,665.[31]

The lack of coordination between the various railroad systems and the excessive rerouting to keep the traffic on one group of roads is another source of widespread inefficiency, unnecessary costs, delays, and waste. Coordinator Eastman is making an elaborate study of this problem, but in the meantime the data on empty freight car-miles will indicate the growing chaos in operation. In 1920 the railroads were under government operation as a unified system. The proportion of empty to loaded car-miles in 1920 was 47 percent. By 1929 this proportion rose to 59 percent and in 1934 it reached 64 percent. [32] These conditions, it must be borne in mind, exist not on an unregulated railroad system, but under a system of regulation that has been in operation—with various modifications—for the last fifty years.

Labor

Railway labor has never had the protection and support granted railway finance by governmental regulation. Instead, labor, in its struggles, has found government on the side of its opponents. In 1877, after a series of wage cuts, spontaneous strikes broke out on many roads. That these strikes were justified was indicated by the widespread sympathy shown for the strikers by local businessmen and the general public. The local militia, called out at the instigation of the railroad owners, in some cases fraternized with the strikers. The federal government then sent in federal troops, and militia from distant parts of the states involved were brought in to break the strike. Blood riots occurred, scores being killed and many more wounded, before the workers were finally defeated. The hostile press, after the strike was crushed, demanded the enlargement of the regular army with "trained, dependable, and impersonal" men. The construction of state armories was also given great impetus at the time.

The next major struggle involving railway labor was the 1894 Pullman strike. Although the strike was precipitated by conditions at the Pullman plant in Chicago, it quickly developed into a contest between the railroads and the rapidly growing American Railway Union. This union, of the industrial type, had organized 150,000 railroad workers under Eugene V. Debs's leadership in less than a year. It had already been victorious in the Northwest. As in 1877, federal troops were called out to break the strike. At the height of the strike, 14,000 federal troops and state militia were on strike duty in the Chicago area.[33] The courts were also invoked by the railroads in their efforts to smash the American Railway Union and injunctions were obtained against Debs and his associates on the strength of which they were finally jailed. The railroads won again—with the aid of the federal government.

Since the Pullman strike, the federal government has attempted to settle labor troubles by the creation of mediation and arbitration boards. These boards, however, were powerless to enforce the improvement of labor conditions.

After many years of fruitless experience with these boards, railroad labor decided to resort to its only true protection, its own organized action. A strike was called for September 4, 1916, to force the passage of the Adamson Act providing for an eight-hour day for railroad workers. On August 29th, President Wilson delivered a special message to Congress, supporting such legislation in order to safeguard "the life and interests of the nation."[34] The bill was introduced in Congress August 31st, passed by Congress the succeeding two days, and signed by President Wilson on September 3rd, the day before the scheduled start of the strike. The crisis in labor relations was thus recognized and partly alleviated by the establishment of the eight-hour day. The problem of adequate wages was not solved and was becoming increasingly important because of the rapidly mounting cost of living at the time. On the eve of this country's entry into the war, a strike was again threatened and averted only after the roads agreed to carry out the terms of the Adamson Act and to pay time and a half for overtime.

Since the return of the railroads to private management in 1920, labor has been losing ground. In that year there were 2,000,000 railroad employees receiving $3,754 million, 60 percent of the operating revenues. By 1929 the number employed was cut 19 percent and the total payrolls 22 percent, indicating a lower average pay for those still employed. In that year the payrolls consumed only 46 percent of the rail revenues. By 1934 the number of employees had dropped to 1,000,000, half the 1920 figure, and payrolls had been reduced to $1,541 millions, 50 percent less than in 1920.[35] The average annual pay of $1,500 or $1,600 includes a wide range of wage and salary scales and thus fails to disclose the low wages paid to large employee groups. Coordinator Eastman reports that "15 to 20 percent of all railroad employees in 1933 were earning

less than $600 yearly."[36] They were not only poorly paid, but many of them were prevented from organizing in unions of their own choosing. Recent investigations have revealed that labor spies and strike-breakers have been employed by the managements of many large systems, including the Pennsylvania, New York Central, Baltimore & Ohio, Union Pacific, and Chicago, Milwaukee & St. Paul systems. They have been discovered on lines operating more than 70,000 miles of road or almost 30 percent of the nation's total. With the use of these spies, railway managements hoped to break up their workers' bona fide unions and substitute puppet company unions. By 1932 company unions were installed on 75 roads, including most of the large systems.[37] Though in 1934 legislation was passed outlawing the railway company union by prohibiting company financial support of labor organizations, labor conditions are still far from satisfactory. At present the federal government is trying to get railroad labor to agree to further reduction in employment, with the promise of dismissal wages, in order to effect coordination of facilities under private management.

Finance

With rates, service, and labor conditions determined in the interests of private profit instead of the public interest, and with regulation unable to alter the situation, it may be expected that at least railroad finance has fared well during the years. Railroad financiers, however, went to such excesses that the railroad industry has become a prime example of unsound finance. Financial scandals have characterized railroad history, typified by the St. Paul reorganization and the milking of the New Haven. The speculative overcapitalization policy followed during the construction era was continued by railway management. By 1920, railroad credit had been completely shattered by these practices and the federal government had to come to the industry's aid. The 1920 Transportation Act was passed with the chief purpose of rehabilitating railroad credit.

The Interstate Commerce Commission, however, was given the power to regulate security issues only after the railroads had already been overcapitalized. At the end of 1920 there were already $16,994,000,000 of railroad securities outstanding in the hands of the public but the law did not apply to the water in these securities. Post-war financial speculation was accomplished mainly through holding-company securities, and the railroad industry was victimized as much as other industries with the possible exception of the electric utilities. The regulatory bodies, however, had no power to interfere with financial practices of holding companies. The best evidence of the ineffectiveness of the post-war legislation to rehabilitate railroad credit is the present situation with 89 roads in receivership or trusteeship, affecting 28 percent of the nation's railroad mileage, and $400,000,000 in RFC loans outstanding.

The burden of the inflated capitalizations has been particularly heavy dur-

ing the depression. From 1929 to 1934 gross revenues dropped almost 50 percent, from $6,373 millions to $3,317 millions. Interest charges fell only 2 percent, from $581 millions to $520 millions. As a result, in 1932 the roads failed to meet interest charges by $122 millions and in 1934 had but $25 millions available after meeting charges.

These financial statistics for the railroads, as a group, understate the financial distress of the industry, since the strong condition of a few profitable roads hides the insolvency of the many weak roads. At the end of 1934 there were 80 railways in receivership or trusteeship, operating 42,168 miles of road, 17 percent of the nation's total. At the other extreme were five roads, operating only 8 percent of the railroad mileage, paying out 75 percent of the total common stock dividends declared during 1934. Of the total outstanding stock, 66 percent paid no dividends at all.[38]

During the last decade or two the situation has been complicated by motor and airplane competition. But fundamentally the present situation is a result of the inherent evils of a management devoted primarily to profit and not of some outside factor such as motor competition. Long before the development of such competition, overcapitalization characterized the railroads, railroad labor was being underpaid, and rates were out of line with the nation's need for economical transportation. These excesses, typical of private monopoly, have not been seriously checked by governmental regulation during the last half century.

Plans to Revive the Railroads

This situation has led many to urge a thorough overhauling of the railroad systems of the country. Various plans for railroad rehabilitation are now being presented to the American people. Such plans divide themselves into two groups, those that still show confidence in private ownership and management and those that turn toward public ownership and operation. The first group, exemplified by the Prince, National Transportation Committee, and Craven plans, assumes that the greatest progress can be made under the profit incentive and private initiative and that governmental regulation can protect the public interest. The public ownership advocates, represented by the Wheeler Plan, assume that the profit motive is contrary to the public interest in the case of the railroads and that governmental regulation has not protected and cannot protect the public interest against the evils of a railroad system dominated by a profit-motivated management.

The differences between the two groups are not a matter of conflicting political theories. As far back as 1898, in the famous case of Smyth *vs.* Ames, the Supreme Court declared that the railroad corporation "was created for public purposes. It performs a function of the State." (169 U. S. 466). In his

1935 report, Coordinator Eastman adds that, "It has been recognized, here and throughout the world, that there is nothing in political theory which stands in the way of government ownership and operation of railroads." [39] The comparison of the various plans can therefore be made entirely on the basis of their economic and social merits.

The Prince Plan

The Prince Plan divides the railroads into seven large systems in such a way as to preserve "good" and eliminate "destructive" competition. Under this plan it is arbitrarily assumed that service is developed by the competition of two railroads in major traffic centers but that the entry of a third road makes the competition destructive and that any competition at all in wayside towns and rural areas is also harmful. The adoption of such a plan would mean that the large industrial centers would get the benefit of competing lines while the farmer and outlying merchant would be at the mercy of monopoly roads.

Considerable operating economies, the advocates of the Prince Plan claim, will result from the combination of the hundreds of roads into a few large systems. These savings are to be made chiefly at the expense of labor, it being proposed to cut the labor forces one-third below the present low level. These furloughed employees are to be paid from one-half to two-thirds their compensation for the year preceding the lay-off until re-hired or for a maximum period of two years. The government and the railroads are each to pay half the cost of the dismissal wages.[40] The roads are thus guaranteed a reduction of at least 22 percent in annual labor costs for the first two years of the plan's operation and a 33 percent reduction in succeeding years.

The one specific accomplishment of the Prince Plan is that it adds more than 300,000 railroad workers to the ranks of the unemployed. By fostering two-road competition and establishing seven systems, instead of one, the plan works against the needed integration of transportation facilities and therefore realizes only part of the possible operating economies. The plan makes no provisions for modernization of facilities and equipment or the improvement in service. The important question of a new rate structure is completely ignored, indicating that the operating economies made at labor's expense are not intended to result in any benefits to the shipper through lower rates and better service. All the savings are earmarked for the benefit of the financial interests since the Prince Plan does not contemplate the reduction of the excessive capitalization of the roads or the lowering of interest charges.

The whole plan is a shortsighted one with the obvious aim of immediate stabilization in the interests of the security holders and bankers. The failure drastically to reduce capitalizations means that it will be impossible to finance

privately any considerable proportion of the necessary modernization. With the rates at the present unsound levels and no improvement in service, there is no basis for an increase in traffic. This means that the 300,000 workers are to be permanently laid off.

Most important of all the defects of the Prince Plan is its underlying assumption that the traditional form of railroad management and control is adequate for the future. The nation's hundred years' experience with rail management for private profit has conclusively proved that railroad service is not improved, that labor is not treated fairly, that equipment is not kept up-to-date, by merely making railroads an attractive investment for financiers.

The Prince Plan fails to recognize that the present situation is a natural product of the kind of control and management which has characterized the development of railroads in this country, and, unless that fundamental structure is changed, that there can be no solution of the problem which will be in the interest of labor and the consumer as well as the financier and will be sound and flexible enough to allow for future progress.

The National Transportation Committee Report

Another plan recently submitted as a means of solving the transportation problem was that of the National Transportation Committee. This Committee was formed in 1932 at the request of a group of large holders of railroad securities, including about fifty of the largest insurance companies, the National Association of Mutual Savings Banks, four universities, and the Investment Bankers Association, to study the transportation problem with particular emphasis on the railroads. A Brookings Institution research staff headed by Harold G. Moulton gathered the basic data. The Committee was headed by Calvin Coolidge until his death, at which time Bernard M. Baruch assumed the chairmanship.

The report of conclusions appeared in 1933 advocating the preservation of the present system of private ownership and regulation. The appearance of motor competition has made it unnecessary to extend regulation, according to the Committee, which even goes so far as to imply some relaxation, in its recommendation that regulation "should be put on the simple basis of public competition," that government "should not attempt to 'run the business' of transportation," and that "more care must be taken to maintain managerial initiative." [41]

The Committee then proceeds to advocate a completely unified system of transportation, involving a grand consolidation of all the railroads and the further integration of other transportation agencies. To accomplish this aim, it is urged that the railroads acquire and operate the competing services. If

such national integration is accomplished it will remove the element of competition which, this Committee asserts, is the protector of the public interest. Yet the Committee provides no means of assuring the public that this private transportation monopoly will be compelled to operate first as a public service and only secondarily as a profit-making enterprise. While on the one hand it is advocated that governmental regulation should not interfere with private management, it is also claimed that "consolidation is so vital to the public welfare that, unless it is voluntarily accomplished within a reasonable time, the government should compel it."[42]

Unlike the Prince Plan, this plan proposes no specific program with reference to labor. Instead it is suggested that since there has been a permanent downward adjustment of values, railroad wages along with rates and capital structures ought to be correspondingly reduced, "but that none should be sacrificed for the benefit of others." Railroad labor and rate history has shown that under private management such equitable adjustments have not been made and since the Committee recommends continuance of private management, its suggestions cannot reasonably be expected to be carried out. The National Transportation Committee Report, like the Prince Plan, fails to recognize that the present troubles of the industry are basic and the result of a long steady growth within the industry.

Craven Plan

A third plan that has secured some public attention is the so-called Craven Plan. This plan, put forth by Leslie Craven, counsel to Coordinator Eastman, recognizes the ineffectiveness of regulation and the necessity for complete unification of facilities. He suggests compulsory coordination on what some claim is a fascist basis, in accordance with the "new ideas of the conduct of business," as exemplified by "our national recovery legislation and in similar movements abroad." "The trend seems to be distinctly away from government ownership," Craven significantly declares, "and toward the creation of what might be called a 'socialized' industry, although it is in no sense socialism."[43]

The new structure, Craven claims, gives full recognition to the rights and interests of the owners, labor, and the public. The government assumes the responsibility for safeguarding the rights of each group. However, 70 percent of the directorate in control of the "socialized" enterprise is given to the stockholders and the other 30 percent to the government; while the bondholders are to have nonvoting representation. In explanation as to why labor is not represented on the board, Craven points out that labor representatives on the board will not hold the confidence of the unions "if they do not secure the results which the unions want."[44] When labor's attitude becomes more submissive, the government administrator's staff "can be depended upon" to ar-

range for representation. Until such time, the government representatives are charged with the protection of labor as well as the public.

Under this plan private control of the industry would not be materially lessened, while, as Coordinator Eastman explains, "the government would be assuming responsibility without power."[45] As was the case with the preceding plans, the private security holder dominates the proposed setup and no effective provisions are made for the protection of labor, the adjustment of rates, and the reduction of capitalizations.

The New Deal Plan

Under Roosevelt a policy of government cooperation, rather than mere regulation, has been followed. The Federal Coordinator of Transportation was set up outside the Interstate Commerce Commission to help the railroads get back on their feet. Joseph B. Eastman, conceded by all factions to be the leading authority in the field, was named Coordinator and was provided with a staff and funds to conduct the necessary research on the pooling and joint use of facilities and other features of unified operation.

The Coordinator has recommended that the government follow a plan of encouraging self-improvement by railroad management. He admits that basic changes must be made, that "half measures and compromises will not do,"[46] and that the success of such a plan will necessarily depend on the efforts of the present railroad management. After three years of operation, Eastman reports, in a recent article, that, when minimum safeguards were provided for labor (the stabilization of employment at May, 1933, levels when payrolls were 65 percent less than in 1920), the interest of railroad executives "waned to the vanishing point. The Coordinator had to proceed under his own steam to a much greater extent than had been anticipated."[47] Rates have been kept high and, when governmental orders for reductions are made, court action is threatened.

However, in one field cooperation by the government has been accepted. Railroads, badly in need of reorganization, have been able to avoid reduction of their inflated capitalizations by borrowing from the Reconstruction Finance Corporation, which has loaned almost half a billion dollars to railroads since 1932, of which about $400,000,000 is still outstanding. In effect the New Deal plan has been an attempt to maintain the status quo in the railroad field by continuing the capitalizations at close to their all-time peak through RFC subsidies and by stabilizing employment at the low point.

Socialization

The various plans for reviving the roads under private management have a common feature in that they all based their hopes on the savings from co-

ordination. National coordination, under any type of management, means monopoly, and thus the question resolves itself into whether it shall be a private or a public monopoly. The shortcomings of plans for private coordination have been pointed out above. On the question of private versus public monopoly, Coordinator Eastman indicates that the public choice would be for the public form of ownership and control. "It is difficult to visualize," he reports, "a grant by Congress of a right to private interests to monopolize railroad transportation within a great region, to say nothing of extending such authority, in one way or another, over the entire country. It is probable that there would be less general opposition to public ownership and operation than to such a proposal." [48]

War-Time Control

An increasing number of students of the subject are coming to the conclusion that public ownership is the only way out. There is of course no unanimity of opinion on this point. Many oppose public ownership. The arguments of the opponents are various. Many point to the federal control during the war, maintaining that such control was a failure. It must be pointed out to these opponents that the nation during the war did not own the railroads, but merely operated them, and that, throughout its period of control, it was compelled to pay excessive tribute to the private security holders. A brief review of the situation might be of interest.

When the United States entered the war, despite the emergency need for complete coordination in order to move war supplies quickly and smoothly, each railroad was still operated with a view to maximum profit to its own corporate interest. The Interstate Commerce Commission was without power to compel the joint use of facilities and the pooling of equipment.

Attemps at voluntary cooperation, through the Railroads' War Board, proved futile. Some roads had an extreme shortage of cars, while others had their tracks glutted with rolling stock. "In consequence," the Interstate Commerce Commission reported in 1917, "mills have shut down, prices have advanced, perishable articles of great value have been destroyed, and hundreds of carloads of food products have been delayed in reaching their natural markets." [49]

The confusion in service and the dangerous tenseness in labor relations finally forced the government to assume control of the railroads. As President Wilson pointed out in his message to Congress on January 4, 1918, in explanation of why the government had to take complete charge, "If I have taken the task out of their [private management's] hands, it has not been because of any dereliction or failure on their part, but only because there were some things which the government can do and private management cannot." [50] The best

efforts of private operation could not provide adequate service under unsatisfactory labor conditions.

Much attention has been paid to the huge deficits incurred under government operation of the railroads during the war. Neither the government nor the director-in-charge favored either public ownership or operation, the task being undertaken only because of the patent inability of private operators to cope with the problem. Since the intent was to return the roads to private control as soon as the war emergency was over, only adjustments necessary to assure the immediate functioning of the transportation were made.

Under government operation the eight-hour day was put into effect and wages were materially increased. On an hourly basis, the wages were increased about 100 percent. The wage increases were made necessary by the failure of private management to make proper adjustments in previous years. "At the time the railroads passed under federal control," the United States Railroad Administration reported in 1919, "the morale of railway employees had sunk to a low degree."[51] Even after the increases, railroad wages showed less of an advance during the war years than wages in many other major industries and when compared with the rising price level, represented a very modest increase in real wages. The "rump" strikes of 1919 also indicated that the government advance in wages was not adequate and lagged behind the skyrocketing cost of living. Yet those essential adjustments of labor costs more than account for the deficits. Director General Hines set the aggregate deficits at $900,000,000 while the wage increases during the period totaled $965,000,000.[52]

The rise in labor costs was not accomplished at the expense of either the private owners or the shippers. The government, upon taking over the roads, agreed to pay a specified rental for the use of the property, based on the net returns to the preceding period, and did so. Although prices in every other industry were climbing rapidly, freight rates were not increased. The Director-General asserted that he thought it in the public interest to accumulate deficits rather than increase rates. In his report of February 28, 1920, to the President, he pointed out that an increase in rates sufficient to wipe out deficits under government operation would not be adequate under private operation and that therefore if such increase were put into effect it would only mean another increase upon return to private management.[53] Thus, Director-General Hines plainly reveals that government operation even under war-time disadvantages was more efficient and economical than private operation. When the railroads were returned in 1920 to their private operators, rate increases amounting to $1,500,000,000 were granted. If the rates allowed the private operators had been in force during the twenty-six months of government operation, it would probably have meant a surplus of almost $2,350,000,000, instead of the $900,000,000 deficit. In other words, private management was no more successful than

the Railroad Administration in avoiding deficits under the admittedly depressed rate level; and only a very large rate increase enabled the carriers to approach a self-sustaining status.[14]

Buying the Railroads

A second objection raised by opponents of public ownership is that the price that would have to be paid for the railroad system would constitute a great burden upon the people of the nation. That is the chief objection urged by Coordinator Eastman. Fundamentally the Railroad Coordinator is in hearty agreement with the need for ultimate public ownership. Immediately, however, he believes that the transfer from private to public ownership would be unwise, arguing that it would mean increasing the national debt by many billions, a burden which cannot now be undertaken. This claim assumes that a large part of the debt incurred in acquiring the roads would not be self-sustaining. In support of this assumption he points out that the final price will be largely decided by the Supreme Court. There the legal rights of private security holders would be sufficiently sustained to result in a high price which, because of the economic conditions in the industry, may prove excessive. His other objections are that political pressures may interfere with proper operation, and that, because of the widespread undermaintenance, there would be too rapid an installation of insufficiently tested new gadgets on the railroad system at an excessive cost. These problems primarily relate to administration and organization, and he admits that they can be solved.

It is important again to note that Eastman does not object to the fundamentals of public ownership, but merely to the way it will be inaugurated if all the legal rights of the investors are to be fully recognized. In that case, the whole bloated capitalization of a subsidized, profit-made industry will be saddled on the public corporation and none of the economies of true public ownership will be realized. That is not public ownership but merely the exchange of unsound railroad securities for sound government bonds.

The Eastman objection to immediate public ownership is not an insurmountable one. The fact that there have been reorganizations of railroads for more than forty years in which capitalization have been reduced proves that it is possible to force investors to accept less than full satisfaction for their legal claims. Eastman himself cites the case of the Chicago & Alton which cut its capitalization $75,000,000. This was done not in the Soviet Union but in the United States and definitely represents an uncompensated destruction of legal property claims.

The Brotherhoods Urge Public Ownership

The belief that the foregoing objections have little validity and that the advantages of public ownership at the right time are exceedingly great from the standpoint of consumer and worker has led organized labor and many students of the subject to formulate definite proposals for public ownership and operation. One of the most enthusiastic public-ownership groups are the Railroad Brotherhoods, the organized employees of the railroads. In 1920, when the railroads were returned to private management, the Railroad Brotherhoods and the A. F. of L sponsored the Plumb Plan for the acquisition of the roads by the government. A managing board with equal representation from finance, labor, and the public was to operate the railroads. Capitalizations were to be amortized and rates put on a sliding scale basis. As profits rose rates were to be lowered. In 1935 the Brotherhoods sponsored a new plan, which was embodied in the pending Wheeler bill. Mr. Eastman, in a general outline of the way public ownership should be effected when that method was chosen, suggested the development of a somewhat similar structure to that contained in the Wheeler bill, and it is likely that the Eastman outline partly inspired the Wheeler proposal.

The Wheeler Bill

The bill introduced by Senator Burton Wheeler of Montana proposed the setting up of a federal corporation, "United States Railways," to take over the railways of the country. The common stock is to be owned by the federal government, and the other securities, including debentures and "'contingent securities," are to be used in the acquisition of the railroads. Three methods of acquisition are proposed—by eminent domain, exchange of securities, and contract. In deciding just compensation, the bill lists present and prospective earning power, functional depreciation, and competition as factors. Each of the means of acquisition leads to the federal courts, and therefore it is the court's decision which under the Wheeler bill will determine what compensation is to be finally paid. As Eastman has intimated, a court-determined price will most probably be an extremely high price, far in excess of a capitalization which should be legitimately supported by the railroad industry.

The securities to be issued by "United States Railways" are to be exempt from all local, state, and federal normal taxes. There is no justification for such tax exemption, however, for the securities will go to the present private investors in the railroads consisting mainly of large financial institutions and the well-to-do. It means a narrowing of the tax base among those best able to pay. It adds to the tax-exempt securities which help keep idle vast accumulations of wealth and thereby increase the tax burdens of the lower classes.

The managing board of five trustees is to be appointed by the President, with senatorial approval. This method is valid only if it can be accurately assumed that government is above the conflict of financial interests, consumers, and labor. A managing board consisting exclusively of government appointees is no safeguard to rail labor or the general public, since at present the financial world can influence the choice of trustees by government more than organized labor or the unorganized consumer can.

The Wheeler bill guarantees the private investors a return equal to the 1934 earnings, less deductions for undermaintenance, and, if earned, a contingent return up to the level of 1930. Labor is not given any such set of promises. The only concession to labor is that existing legislation will be observed "to the same extent as if such facilities were privately owned and operated," [55] meaning that the labor conditions and wages will not necessarily be improved. Similarly, there is no provision for adjustment of rates in the public interest, the only provision being that they be "just and reasonable," the same vague criterion that is supposed to have governed rates for the past decades. Actually, it is specified that rates may be "adjusted" to provide enough net income to meet the guaranteed interest charges. This seems to indicate that the Wheeler bill sees as its first duty the preservation of the private investors' claims.

The defects in the Wheeler bill make it necessary to formulate the principles upon which a plan for public ownership and socialization must be based. Undoubtedly the proponents of the Wheeler measure have in mind the establishment of true public ownership, but their plan makes it unlikely that "United States Railways" will be free to fulfill the promise and potentialities of a socialized transportation system.

The Elements of an Adequate Plan of Socialization

Under an adequate plan of public ownership and socialization, the price to be paid the present investors must not be left to the final determination of the federal courts. The railroads as a group are to be taken over because the present management has proved itself helpless in its present distress. The government is therefore not taking over a going concern. and ownership should be consummated on a reorganization basis. The historical summary has indicated that railroad capitalization was built up without any direct relevancy to the transportation system, but primarily in accordance with promoters' expectations of speculative gains. A sharp cut in railroad capitalization as the reorganization basis for public acquisition therefore does not violate any principle of just compensation for legitimate actual investment in transportation facilities.

As to what that price shall be, there is no one criterion. Obviously a physical valuation is out of the question because of the expense and legal complexities, as indicated by the ICC's experience since it began that task in 1913. Actually, in reorganization procedures, the practice has been to decide the new capitalization by out-and-out bargaining. The stockholders, creditors, and bondholders realized and accepted the fact that their interests were divergent and acted accordingly, the strongest getting the best terms. In a public acquisition, similarly, the interests of the public are opposed to those of the private investors. The private security holder is going to take full advantage of whatever claim he has. There is no reason why the government should ignore its own weapons in these bargaining negotiations. On the one hand it has been preventing financial collapse through $675 millions of RFC and PWA loans, and on the other hand it proposes to take over the roads on a going-concern basis.

In reorganization negotiations, during which the price is to be determined, full account must be taken of the fact that there is an estimated undermaintenance of from $1,000,000,000 to $2,000,000,000 on the railroads today. Allowance must be made for the income accruing to the roads through government subsidies, such as mail allowances. Deductions should be made for the land grants and other governmental subsidies made during construction of the railroads. Acknowledgment should be given to the effect of the R.F.C. and P.W.A. loans. Finally, it should be recognized that the rate structure and labor conditions are unsatisfactory, and that rates have to be revised and labor costs increased. All these items affect the present and future earning power of the railroads, which the Wheeler bill admits should be the basis of payment. Private investors should not receive more than the value of the computed prospective earning power directly attributable to the property they have provided to the transportation system.

The capitalization of the 'United States Railways' must be on an immediately self-supporting basis, which means not only meeting interest charges, but also maintaining satisfactory service, truly reasonable rates, and proper labor conditions and wages. The gains of public operation should accrue in full to the public and not be sluiced off by the private investors. Finally, such determined capitalization should be in serial bonds, to be wiped out over a period of not more than thirty or forty years. The private policy of perpetuating debt should not be followed. A plan which sets up a capitalization reflecting the prospective earning power of the legitimate private interest in the roads will not increase the national debt, for it will be self-supporting.

Any immediate public-ownership plan must not put the management completely in the hands of "government" men, but its leadership should be composed of direct representatives of the groups involved. Let labor groups decide who shall be their representative on the board, and let consumer groups choose

their representatives. The arrangement may be that they be presidential appointees, but the panel of nominees should be selected by these interested groups. The myth that there is any "impartial" body that can make appointments in the interests of all should not be allowed to prevent the true socialization of the roads.

Not only should a drastic reduction in rates be effected at the time of acquisition, in order to help determine the true earning power of the private carriers, but the governing board should adopt a permanent policy of keeping the rates in adjustment with changing economic conditions. Rates should be determined on the principle of socialized cost, in accordance with the nation's needs. The Plumb Plan had a provision for lowering rates as profits rose. Similarly, instead of attempting to increase profits, a public system should aim at keeping the system self-supporting and the additional profits be applied to a lowering of rates. Finally, integration of all transportation agencies into a unified system must be adopted and then, to keep it in balance with other industries, coordination with other basic industries will have to be effected.

These are safeguards which must be provided if the public-ownership fight is not to become a boomerang, acting as a savior of decayed capitalizations at the public expense. In the final analysis, the success of government ownership must depend on what kind of government takes over the railroads and operates them. Public ownership under a government which is privately controlled will not result in a transportation system socialized for the benefit of the people.

"Government ownership under a tory or conservative government," as Dr. Laidler declares in *A Program for Modern America*, "means a far different thing than it does under a labor or socialist government. It may be used, as under the German monarchy, to strengthen reaction, rather than advance social progress. As industry is transferred from private to public ownership, it is of the utmost importance that the control of the government be placed increasingly in the hands of the plain people of the country, who earn their bread—or stand ready to earn their bread—by the sweat of their brow, not by the sweat of the brow of their fellow man. Then and then only can a democratic and socially visioned administration of public services be guaranteed." [56]

Advantages of Public Ownership

Public ownership of the democratic type outlined above has a number of distinct advantages over present-day control. Public ownership and operation will mean that the railroads, for the first time in the history of this country, will be put on a public-service basis. The aim of public management will be a transportation system to meet the economic needs of the country, not a system directed, first and foremost, for maximum profits. Public management will mean the development of a more adequate and efficient transportation

system than is possible under private management. Under it, the system can be thoroughly modernized and integrated as one system, unsound financing and overcapitalization can be avoided, rates can be adjusted to economic conditions, and labor can be accorded just treatment.

In every proposal for bringing prosperity back to the railroads, it has been pointed out that the chief needs of the day in transportation are the elimination of the wastes of uncoordinated competitive systems, and the running of the nation's railroads as a coordinated whole. Under private ownership and control such coordination cannot be accomplished in the public interest. An integrated railroad system under private ownership means private monopoly, and the chief aim of private monopoly is not maximum service but maximum profits. Voluntary cooperation between individual roads is practically impossible. As has been shown above, during the war, despite the extreme emergency and the patriotic fervor, private management failed to provide the necessary coordinated service and the federal government had to assume control. If under war stress the railroads still held their private corporate profits as more important than the national interest, what chance is there of their cooperating for the common good during the piping days of peace? The only integration of any importance achieved under private ownership has been that of financial control through the creation of holding companies. The aim of such financial control has not been better service rather than larger profits. Wasteful practices instead of coordination benefits have often been the result. Such control has frequently led to the rerouting of freight through long and devious routes in an attempt to keep the business on the roads operated under a single financial control. A few years ago a tank car of linseed oil routed from Undercliff to Bayonne, a distance of 13.5 miles, was forced to travel 179.5, in an effort to keep it in the clutches of one railroad.[37] Under public ownership the obstacles to integration are completely removed. There is one management responsible to the workers and consumers of the country. Such a management, in order to satisfy its public "investors," must produce dividends in the form of more ample and less costly transportation service. That is the only way labor and the consumer can benefit from the transportation system. With service, instead of profits, the prime aim of public management, integration can be effected in order fully to utilize the unified transportation system in the service of the nation. Under public ownership, not only is the antagonism between different sections of the railroad system removed, as it could not be removed under private ownership, but the industry is placed on a basis of genuine cooperation with other industries.

Under public ownership and control, as we have said, the roads can more easily be modernized than at present. Under private control, much of the investors' money and capitalization are tied up in old and obsolete equipment.

To modernize the roads new capital must be furnished. Private interests do not think the railroads a safe enough investment for that. As a matter of fact, since 1932 the federal government has been the principal financier of the railroads. Under public ownership, if the capitalization is reduced at time of acquisition to its legitimate size on the basis of earning power, there will be available new capital for modernization. The savings from such improvements will more than meet the costs of new money. New capital will be invested not because the system is a government enterprise but because it will be soundly financed and able to support the capital charges.

One of the principal advantages of public ownership is that under it the traditional overcapitalization and unsound financing which have characterized the railroad industry for the past hundred years can be avoided. Overcapitalization and the burdensome interest charges are not the result of errors on the part of a few financiers. They are, on the other hand, the natural result of the basic financial policy of all privately owned railroads. Private ownership continues to pile up indebtedness and to increase its capital structure without any adequate provision for keeping it in adjustment with economic conditions. When the burden grows too heavy, some of the debt is wiped out by confiscation of creditor claims. The remainder of the burden is shifted to the consumer and worker by reducing service or increasing rates—often both—and by cutting labor payrolls. That is the only solution under private ownership when a system's financial troubles come to a crisis. It cannot seriously reduce capitalizations because that will mean wiping out the claims to railroad earnings of the very people whom the management represents—the investors.

Public ownership removes the pressure of investors from the management. Other interests have a stronger claim on the public management. Management will not be allowed to sacrifice service for the sake of maintaining unnecessarily large capitalizations. Under public ownership, the transportation system's indebtedness will be on a sinking-fund basis and thus will be automatically wiped out over a period of from thirty to forty years. The evils of speculative finance which have characterized railroad history cannot reappear under public control, since financiers will not dominate the property.

While the transportation system is in private hands, it is necessarily a profit-making industry on a par with the various industries that ship their products on its line. Public ownership removes this basic antagonism between the two groups, an antagonism resulting from the fact that shippers want low rates and railroads, high profits. Under socialization, rates will be determined by the needs of the people. Rates can be so adjusted as to assist in a considerable measure to conserve the country's natural resources, to prevent the uneconomical development of industries, and thereby to help reduce consumer prices.

Railroad labor cannot expect to be secure until the roads are under control.

Their organizations have realized this fact and through the Brotherhoods and the Labor Executives' Association they are advocating public ownership of the railroads. Private ownership and control mean a constant pressure for increased returns to the security holder. Such mounting profits over a long period of time are possible only at the expense of the consumer, through high rates and inadequate service, and labor, by reduction of payroll. Prosperity for privately-owned roads does not mean prosperity for transport labor, as past prosperity periods have proved. Under public ownership, the management does not seek to take from labor for the benefit of vested interests, since labor is one of the major owning groups. Also service, the prime goal of a publicly-owned transportation system, cannot be improved or maintained without the full cooperation of the transport workers. Such cooperation cannot be forced and can only be assured by an adequate wage and pension policy and fair working conditions. Since the vast majority of the remaining owners are also of the working class, it would be impossible for the management, even if it so desired, to maintain low wages and unsatisfactory working conditions over any period of time.

Finally, public ownership removes from the public scene one of the most corrupting forces in politics, the railroad lobby. With the financiers no longer in control of the railroads, there will be no need for them to bring pressure to bear on public officials to betray the public interest for the benefit of the minority in control of the railroads. With this pressure group, one of the oldest and most powerful in the field, out of the way, the legislators and the judges will be freer to devote their efforts to furthering the public welfare. Democratic and representative government will be greatly strengthened and the consumer and worker will, for the first time, reap the benefits of a transportation system operated for use instead of profit.

FOOTNOTES

1. Statistical Abstract of the U. S., 1935, p. 162; U. S. Interstate Commerce Commission—Statistics of Railways—1934—p. S-107.
2. Computed on the basis of anthracite coal shipped and retail prices, as shown in Statistical Abstract of U. S., pp. 699 and 701, and railroad revenue from shipments of anthracite coal, as shown by the I.C.C. Freight Commodity Statistics Report for 1934.
3. Freight Commodity Statistics—1934.
4. Based on retail sales, Statistical Abstract, p. 771 and rail revenues, Statistics of Railways, 1934—p. S-107.
5. Statistical Abstract, p. 270 and Statistics of Railways, p. S-107.
6. Abstract, p. 698 and Statistics of Railways, p. S-102.
7. Based on 1935 official reports of PWA and RFC.
8. Laut—History of Rails, p. 382.
9. Corey—Decline of American Capitalism, p. 359.
10. Myers, G.—History of Great American Fortunes, Vol. 3—p. 66.
11. Ibid—p. 368.

12. Pamphlet circular issued by Jay Cooke.
13. Cleveland and Powell—Railroad Promotion and Capitalization, p. 79.
14. Myers—Vol. 2—p. 49.
15. Cleveland & Powell—p. 246.
16. Myers—Vol. 2—p. 34.
17. Myers—Vol. 2—pp. 149, 150, 207, 208.
18. Buck—The Granger Movement—pp. 13-14.
19. U. S. Senate—Report No. 307. Report on Transportation Routes to Seaboard. 1874, Part I, p. 240.
20. Ibid., p. 158.
21. Myers.
22. Ibid.
23. These index numbers are based on the revenue per ton mile of Class I railways, on U. S. Bureau of Labor Statistics Index on wholesale prices, and on U. S. Department of Agriculture indices of prices received by farmers and prices they paid.
24. Dunn-American Transportation Question, pp. 30-32.
25. Letter to President Wilson, Oct. 24, 1914.
26. See page 23.
27. Statistics of Railways—p. S-6.
28. Moulton, American Transportation Problem, p. 151-152.
29. Statistics of Railways—p. S-107.
30. U. S. House Committee on Internal and Foreign Commerce, 73 Cong. 1st Sess. Hearings on Emergency Railroad Transportation Act, 1933, p. 179.
31. Statistics of Railways, pp. S-14-18.
32. Ibid—S-107.
33. Yellen—American Labor Struggles—p. 35.
34. Sharfman—The Interstate Commerce Commission, Vol. I—p. 101—ff.
35. Statistics of Railways—p. S-107.
36. U. S. House Doc. 89—74 Cong.—1st Sess.—p. 68.
37. Hearings on Emergency Railroad Transportation Act—Senate Interstate Commerce Committee—73 Cong.—1st Sess.—p. 107.
38. Statistics of Railways—p. S-46.
39. U. S. House Doc. 89—74 Cong.—1st Sess. pp. 49-50.
40. Manuscript of Richard Levy..
41. Moulton—p. XXV.
42. Ibid—p. XXVI.
43. U. S. Senate Doc. 119—73 Cong. 2nd Sess.—p. 93.
44. Ibid.
45. U. S. House Doc. 89—74 Cong. 1st Sess.—p. 49.
46. Ibid—p. 56.
47. N. Y. Times, April 19, 1936—Magazine section.
48. U. S. House Doc. 89—74 Cong. 1st Sess.—p. 49.
49. I.C.C, Annual Report 1917.
50. Sharfman—Vol. I—p. 144ff.
51. U. S. Railroad Administration—Division of Labor Annual Reports—1919—p. 8.
52. U. S. House subcommittee on appropriations, Hearings—April 12, 1920, p. 210.
53. Pp. 27-28.
54. Sharfman—Vol. I—p. 169ff.
55. U. S. Senate Bill 2573—74 Cong. 1st Sess. Section 306.
56. P. 350-351.
57. Laidler—Program for Modern America—p. 338.

Notes on Contemporary Books

M-Day: The First Day of War, by Rose M. Stein. *Harcourt, Brace & Co., New York*. 1936. 398 pages. $2.50.

This is a rapid-fire book. About half of it is given over to the War of 1914-18. Partly this serves to remind us of the horror and waste—symbolized by France's armies thrown pell-mell into the breach to mingle with the Verdun mud, in order to save the prestige of France, though only a few square miles were at stake. Partly it reminds us how we got into the War (relying on the Munitions Investigating Committee for the final details) and how we later failed to use the urge for peace to limit trade barriers or imperialist possession (Clemenceau's formula for a lasting peace, quoted from Steffens). Partly it leads up to the main thesis by outlining the relations of industry, labor, and government during the War.

The main thesis is: (1) that it will be the function of the next war to create a system of cooperation between industry and government which will not only mold opinion but also permit only approved and domesticated labor organization to exist, by drafting trouble-makers for the front; in other words a better planned and more systematic use of the devices of 1914-18. (2) This system will very likely be retained at the end of the war as a legally-achieved fascism.

Fascism (if achieved) would be the chief gain that capitalists would get from the war, though war prosperity is a lure, too, more especially in a depression, when it also lures the workers. There is at present a movement to take the profits out of war. Presumably this is intended not simply to discourage restriction of output and equalize the suffering, but to remove incentives for bringing about wars. But no law is yet on the books, and in any case, though we imposed war taxes in 1917-18, large amounts claimed by the government have never been paid.

The evidence as to the plans for the next war period, which may lay the basis for fascism, is not simply the N.R.A., which adapted to peace time uses the 1918-19 projects of the War Industries Board, and also took over its personnel: Baruch, Johnson, and Company. The evidence is also the War Department's blueprints for industrial mobilization, which were peacefully awaiting M-day (mobilization day, to you) until brought out toward the daylight by the Munitions Committee.

A novel element in the international situation is the existence of a Communist state. America has been against it since the Red scare of 1917-20 (a rationalization-excuse, Miss Stein says, for our having entered the War). On the other

hand, America is now against the chief enemies of Russia—fascist Japan, Germany, Italy. The people of America may easily be lured (by the sanctions route, for instance) into a war ostensibly against fascism, and at the end find that they have perfected capitalist control in a fascist mold at home.

One of the things that is postponing war, according to Rose (M-day) Stein, is that Russia is not only a dangerous enemy to fascist countries and other potential enemies, but would be a dangerous ally. It might radicalize the workers of Russia's allies, and it might also provide the alternative toward which would turn the peoples of the fascist countries, when, as, and if defeated. To be sure, the idea of an alliance between Russia and America is only one of the paradoxical arrangements between which all nations are hesitating—thus postponing war a bit.

CARL RAUSHENBUSH

Revolt Among the Sharecroppers, by HOWARD KESTER, *Covici Friede*. 50 cents.

For the man who wrote this book the struggle of the cotton sharecroppers has not been a literary adventure. It has been his life and his chief occupation for the past year and a half. No one has a better right than he, organizer of the Southern Tenant Farmers Union, to speak out against the sharecropping system and against the Roosevelt administration which he holds responsible for making even worse the social and economic conditions of the eight and a half million men, women, and children already condemned to dreary, fruitless labor in the cotton fields.

This is a heroic book. It recounts the beginnings and grim persistence in organization by Negro and white farmers of eastern Arkansas—tenant farmers, sharecroppers, and agricultural workers. In vivid, simple style, Mr. Kester describes the greatness of their daring: to organize themselves against the exploitation of the plantation owners and the ravages of the A.A.A., to build a union of black men and white men in spite of guns and murder and the lynch rope.

In darkness and stealth they met. Their organizers were run off in the middle of the night and were chased by bloodhounds. Their homes were shot into and their belongings thrown into the road by riding bosses. But the calendar of terror Howard Kester records is no mere account of whippings and wounded and stricken bodies. For the mob that rides against the union of sharecroppers includes sheriffs and judges, abetted by the callous unconcern of Governor Futrell and the fierce demand to keep hands off Arkansas made by Joe T. Robinson, Democratic leader of the U. S. Senate.

It is relevant to note that this year is Arkansas's one hundredth since its admission to statehood. In June a centennial celebration is going to be held

and President Roosevelt has announced a trip to Little Rock to celebrate with a jolly company of plantation owners and business men. Before the President goes perhaps he will be interested to learn in a brochure published by the Arkansas Centennial commission that "a new class of people has arisen in the state, the proletariat—the tenant and the sharecropper, both white and Negro. the growing agrarian unrest in the South has reached Arkansas in a mild form and while it presents no alarming situation at the present time it looms on the horizon as an economic adjustment that must be made."

Few sharecroppers will be in the neighborhood of the great jubilee to spoil by their presence the feast of their exploiters. But a few months before, the Southern Tenant Farmers Union held its second convention in the state's capital together with representatives of the organized labor movement. In 1936, Arkansas's proletariat has become conscious. The revolt among the sharecroppers is no longer unaided.

The chronicle of their struggle and achievement which Mr. Kester has given us is an inspiring addition to the literature of the working class in the United States.

JOHN HERLING

A Program for Modern America. By HARRY W. LAIDLER, PH.D. *Thos. Y. Crowell. New York*. 1936. 498 pp. $2.50.

"Everybody talks about it but nobody does anything about it." There will be less excuse now for anyone taking this attitude toward the economic crisis; we have been offered an intelligent "program for modern America." In what the author himself calls "a political and economic handbook for today," Dr. Laidler has drawn up a four-year program of action on the specific problems that now harass our country. In his earlier work, *Socializing Our Democracy*, he has offered a broad view of the struggle toward a new social order; in the present volume he is pointing out the steps that might be taken here and now to help us out of our present chaos.

All too often phrases such as "the N.R.A.," "social security," "crop reduction," are taken up and then dropped, like fashions of the day. People forget that to disparage or discard a remedy is not to solve the original problem. For this reason the method used by Dr. Laidler is valuable. In dealing with each issue—agriculture, taxation, banking, public works, etc.—he describes the problem that calls for solution in its historic setting, analyzes the remedies proposed or attempted today, shows the extent to which they have succeeded or failed, and indicates clearly what remains to be done in the field if we are to avoid disaster.

The chapters on the railroads, on unemployment insurance, and on the

Constitution are perhaps the most outstanding in wealth of background material and in analysis of present issues. Some problems, unavoidably, receive less extensive and less thorough treatment. It may seem strange to the reader, as it did to the reviewer, that the space given to the topic of collective bargaining is no greater than, for example, to the problem of the shorter work week. It is perhaps due to the fact that in this work the author is showing us the steps that constitute the way out rather than how to gain power to take those steps. Of the twenty chapters in the book, only one—on the need of a third party—deals with the question of gaining political control.

Although the various problems are dealt with separately, they are in no sense isolated. Their relations to each other and to the weakness of our whole economic structure are made clear, and a plea is made for a movement on all fronts towards a socialized order. Wherever possible comparison is made with situations and methods of solution used abroad.

The reader is given throughout the benefit of careful research carried on by the author over a period of time. What a work of such factual nature may lack in emotional stimulation it gains in wealth of helpful detail and concreteness. The book is important for those who want more than a superficial understanding of the issues that face us as we go to the polls in 1936.

ORLIE PELL

Imperial Hearst—A Social Biography, by FERDINAND LUNDBERG. *With a Preface by Charles A. Beard. Equinox Press. New York.* 1936. 390 pp. $2.75.

No study of American journalism and of the Red-baiting forces in this country is complete without a careful reading of this book.

Here Mr. Lundberg shows in his true color the leader of the underworld of American newspaperdom from his reckless youth to his venomous old age—William Randolph Hearst. The author describes the various reprehensible methods employed by Hearst in securing circulation; the sinister part played by him in the political life of California, New York, and other sections of the country, his part in instigating the Spanish-American war, and, finally, his connection with the reactionary and fascistic forces of our own times. Lundberg sets forth the extent of the colossal estate of this highest salaried executive in the country, shows the utter insincerity of Hearst's attacks against the "malefactors of great wealth" and the corrupt forces of Tammany Hall and other political machines, and describes how many of these attacks suddenly ceased when the "malefactor" came to terms with the business office of the Hearst

papers or held before Hearst the promise of high political office. He likewise reveals the despotic character of Hearst's labor policy.

The book constitutes a terrific indictment of an influential section of our press, and of that portion of the American public that continues to support, actively or passively, America's "Enemy Number 1."

Dr. Charles A. Beard adds a noteworthy preface to the book. The judgment of Hearst's contemporaries, declares Dr. Beard, is that Hearst, "despite all the uproar he has made and all the power he wields, is a colossal failure and now holds in his hands the dust and ashes of defeat. He will depart loved by few and respected by none whose respect is worthy of respect. When the cold sneer of command at last fades from his face none will be proud to do honor to his memory. . . . Unless we are to believe in the progressive degradation of the American nation, we are bound to believe that Hearst's fate is ostracism by decency in life, and oblivion in death."

H. W. L.

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